

# **Fiscal Services Division**

## **Legislative Services Agency**

### **Fiscal Note**

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SF 2231 – Investment Tax Credits (LSB 5786 SV)

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Fiscal Note Version – New

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#### **Description**

Senate File 2231 makes changes to three seed and venture capital tax credit programs. The Bill:

- Expands the use of the Economic Development Region Revolving Fund Tax Credit under Section 15E.232, Code of Iowa, to include the development of statewide and community angel and seed capital investment programs. The current tax credit is capped at \$2.0 million per year, plus unused credits from a previous year. Senate File 2231 also prohibits the issuance of further tax credits under this program after June 30, 2013.
- Increases the current \$10.0 million aggregate cap on tax credits issued for Qualifying Business or Community-based Seed Capital Fund Tax Credits under Section 15E.43(4), Code of Iowa, to \$12.5 million and allows the additional \$2.5 million to be awarded during FY 2009.
- Eliminates the current Venture Capital Investment Tax Credit under Section 15E.51, Code of Iowa. This tax credit is limited to \$5.0 million in aggregate awards.

#### **Background**

The Economic Development Region Revolving Fund Tax Credit is equal to 20.0% of the taxpayer's contribution to a qualified fund. The credit can be carried forward but it is not refundable or transferrable. An Internal Revenue Service 501(c) organization may receive a direct State General Fund reimbursement instead of a tax credit. The total amount of credits and direct payments that may be authorized in one fiscal year is \$2.0 million, plus any unused credits from previous fiscal years. Current law does not limit the number of years the credit is available. The Department of Economic Development reports the Economic Development Region Revolving Fund Tax Credit has not been utilized since its implementation in FY 2006. Including the FY 2009 \$2.0 million allocation, a total of \$8.0 million of credits would be available in FY 2009 should there be demand for the credits. Credits or awards issued under this Program may be redeemed in the year of issuance.

The Qualifying Business or Community-based Seed Capital Fund Tax Credit is equal to 20.0% of the taxpayer's cash equity investment in a fund. A tax credit may not be redeemed until three years after issuance. Unused credits may be carried forward until fully utilized. The credit cannot be transferred to another taxpayer. The current aggregate amount of tax credits issued under the Program may not exceed \$10.0 million.

The Venture Capital Investment Tax Credit is equal to no more than 6.0% of a taxpayer's equity investment in venture capital funds. The credits may not be redeemed until three years after issuance. Unused tax credits may be carried forward for up to five tax years and the credits are not transferable. The current aggregate amount of credits that may be issued is \$5.0 million. The Department of Revenue reports that \$2.2 million in credits have been issued since inception.

#### **Assumptions**

##### **1. Economic Development Revolving Fund Tax Credit:**

- The current Economic Development Revolving Fund Tax Credit has not been utilized and will not be utilized without modification. Revenue estimates assume this credit will not be utilized under current law.
- At the start of FY 2009, the supply of unused tax credits equals \$8.0 million, including the \$2.0 million allowed for FY 2009.

- The addition of a statewide region will provide sufficient demand to utilize \$4.0 million of the available tax credits in FY 2009 and \$6.0 million in FY 2010.
  - After FY 2010, \$2.0 million will be available each year through FY 2013.
2. Qualifying Business or Community-based Tax Credit Tax credits awarded under Section 15E.43 (4), Code of Iowa, may not be claimed until three tax years after the credit is awarded. Increasing the available aggregate credits will increase credit redemption by \$2.5 million for FY 2012.
  3. Assuming an additional \$0.3 million will be issued under this program by the end of June 2008, eliminating the aggregate cap for the Venture Capital Investment Tax Credit effective July 1, 2008, will reduce credits claimed under the Program by \$500,000 per year from FY 2009 through FY 2013.

### **Fiscal Impact**

Expanding eligibility for the current Economic Development Region Revolving Fund Tax Credit will reduce net General Fund revenue by \$16.0 million over the next five fiscal years.

Increasing the aggregate cap on the Qualifying Business and Community-based Seed Capital Tax Credits will decrease net General Fund revenue by \$2.5 million in FY 2012. Eliminating the current Venture Capital Investment Tax Credit will increase net General Fund revenue by \$2.5 million between FY 2012 and FY 2016.

<b>SF 2231 Net General Fund Fiscal Impact by Provision</b>				
	(In Millions)			
	15E.232 Region Revolving Fund Credits	15E.43 Qualifying Business Fund Tax Credit	15E.51 Venture Capital Tax Credit	Net General Fund Decrease
FY 2009	\$ 4.0	\$ 0.0	\$ 0.0	\$ 4.0
FY 2010	6.0	0.0	0.0	6.0
FY 2011	2.0	0.0	0.0	2.0
FY 2012	2.0	-0.5	2.5	4.0
FY 2013	2.0	-0.5	0.0	1.5
FY 2014	0.0	-0.5	0.0	-0.5
FY 2015	0.0	-0.5	0.0	-0.5
FY 2016	0.0	-0.5	0.0	-0.5
	<u>\$ 16.0</u>	<u>\$ -2.5</u>	<u>\$ 2.5</u>	<u>\$ 16.0</u>

The tax credits altered in SF 2231 are not refundable, so the changes will reduce school local option income surtax revenue by a projected \$480,000 over eight fiscal years, with the majority of the impact occurring in FY 2009 and FY 2010.

### **Sources**

Department of Revenue  
Department of Economic Development  
Legislative Services Agency Analysis

/s/ Holly M. Lyons

April 8, 2008

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.